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LENDING

Picking Cotton

Project Targets Uzbekistan's Key Crop

Agriculture has played a leading role in Uzbekistan's economy, with cotton as its leading commodity. Despite poor conditions—land and water resources are very limited and most cultivated land requires irrigation—the agricultural sector contributes one-third of the country's GDP and employs about half the labor force. About three-quarters of the country's foreign earnings are generated by agriculture, mainly by cotton production. The varieties of cotton planted have the potential for higher yields but production is hampered by the lack of efficient farming.

The World Bank on May 26 approved a loan of $66 million to help Uzbekistan improve production in the vital cotton sector and assist the country's transition to a market economy.

The project aims to modernize cotton production and open it up to the world markets. It will help eliminate state intervention, liberalize prices and promote active private sector participation. It also seeks to introduce environment-friendly production technologies and boost foreign exchange earnings.

The project includes five components:

- ***Seed Industry:*** helping the private sector process and market about 25,000 tons of planting seed per year; strengthening seed quality control agencies; assisting the public sector in developing reliable seed control and certification and introducing new seed varieties.

See **UZBEKISTAN**, *page 2*

New President Begins

M. Iannacci

James Wolfensohn takes office today as the ninth president of the World Bank.

Turkey Heads Off Water Problems in Coastal City

Water and sanitation infrastructure fulfill basic needs, but they pose complex problems of financing, management and technology, particularly to developing countries. That's why such projects have figured largely in the Bank's work to improve people's living conditions and environmental health.

Antalya, a fast-growing tourism center on Turkey's Mediterranean coast, is a city with abundant water but an inadequate water distribution network. And the city's septic tank system for waste disposal is no longer able to handle the needs of Antalya's burgeoning population. Domestic and industrial waste flowing back into Antalya's groundwater represents a risk to the city's water supply and economic livelihood.

To help Antalya meet its growing infrastructure needs, on May 25 the Bank approved a $100 million loan for a water supply and sanitation project that will finance physical improvements and introduce private sector involvement to ensure good management. With Bank backing, water connections will jump from 143,000 to 212,000, covering 96 percent of the population by 2002, including nearly 12,000 new low-income residents.

See **TURKEY**, *page 2*

INSIDE ...

Bank Managing Director Richard Frank on the new demands of managing financial risk, page 3 ● International donors pledge support to three former Soviet Republics, page 6

World Bank roundup, page 4

■

Development agenda, page 5

■

Press briefing, page 6

Turkish Coastal City Updates Water System

TURKEY, *from page 1*

"There are two main pieces to this project; rehabilitation of the water system and creation of a sewerage system—pretty much from scratch," says Henry Boldrick, a senior financial analyst in the Bank's Europe and Central Asia Region. Antalya, which is built on a large, water-holding limestone formation, gets ample water from ground water sources, such as wells and springs.

The current water distribution network is extensive, but inadequate and unreliable. Much of the network is old—many pipes are cracked and leakage is widespread, while many newer pipes are too small. Broken and inadequate pipes will be replaced under the project.

Water losses are now estimated at 41 percent (38 percent due to leakage and three percent due to an estimated 10,000 malfunctioning meters). Along with the new distribution system, new meters will help reduce unaccounted-for water, thereby reducing lost revenue, as well as limiting the amount of water that has to be supplied. Non-revenue water (unaccounted-for water as well as free water for public fountains, parks, mosques, fire fighting and street cleaning), which now accounts for 46 percent of Antalya's water needs, is expected to fall to 36 percent.

About 70 percent of the city area is served by concrete septic tanks, while the balance, mostly hotels and industries, are connected to private sewerage systems. Although septic systems work well on limestone formations, the high volume of waste poses a potential threat to the health of the city's water supply, health, fisheries and tourism industry.

"Sooner or later, this limestone will no longer be able to absorb the septage," says Boldrick. "These systems can no longer handle the demands of a rapidly growing city."

The new sewerage network will be built mostly in the western part of the city, where the water table is high and construction of septic tanks is not feasible.

The project supports an official shift of investment responsibility from the central government to the city of Antalya, which expects to recover costs through user charges. One of the project's goals is to promote managerial efficiency and improve service quality by introducing the private sector through leasing contracts and concessions.□

☎For more information *on Turkey and the World Bank, contact Jan Pakulski at (202) 473-1797.*

Uzbekistan Modernizes Agriculture

UZBEKISTAN, *from page 1*

• ***Cotton Marketing:*** backing the introduction of cotton grading technology consistent with international standards; promoting the spread of information generated through the grading system.

• ***Integrated Pest Management:*** helping to develop automated insect rearing and dispersal technologies, improved pesticide spraying equipment, as well as a national pesticide policy and a Farmers' Pesticide Handbook.

• ***Irrigation:*** providing for equipment and training to introduce irrigation timing technology, thus reducing the use of water and improving land productivity.

• ***Project Management and Program Design:*** strengthening the institutional capacity of agencies carrying out the project; and preparing investment programs for seeking external financial support.

C. Carnemark/World Bank

Advances in the field.

The total project cost is estimated at $84.6 million. The Bank loan will finance 100 percent of foreign exchange costs and about 17 percent of local costs. To cover the remaining local costs, which include import duties and taxes, the government will contribute $10.8 million, and the private enterprises involved will finance $7.8 million. Funds earmarked for the implementing agencies in the public sector will be received by the Central Bank and will be channeled as grants. Funds for private seed companies and seed farms will be channeled by the Government through an agent bank.

Since the collapse of the Soviet Union, Uzbekistan has implemented gradual reforms in order to avoid the negative effects of rapid changes. A Presidential Decree issued in January 1994 called for faster privatization and less state control.

The first loan to Uzbekistan, for institution-building, was approved in September 1993 in the amount of $21 million, followed by a rehabilitation loan of $160 million approved in March 1995.□

☎For more information *on Uzbekistan and the World Bank, contact Jan Pakulski at (202) 473-1797.*

VERBATIM

World Bank Managing Director Richard Frank spoke recently to an IFC bankers group on managing financial risk in an increasingly global, increasingly volatile environment.

"Risk lies at the heart of all financial endeavor. Because risk is often as much a matter of judgment as hard evidence, differing perceptions of risk make markets. Official financial institutions such as ours are not always comfortable with the thought that mere perceptions can be so important.

But we, the World Bank Group, must become more comfortable with risk. Spreading the burden is more necessary than ever because risk today can be global, huge and very volatile.

Capital flows are a vivid example. Between 1990 and 1994 more than a trillion dollars flowed from abroad into developing countries.

As the Mexican case has shown, however, capital flows can pose problems. There are risks on both sides—for the recipients and the suppliers of capital.

For recipients, possible problems include the relationship of capital flows to the balance of payments, the budget and inflation. In extreme cases, these relationships can culminate in loss of monetary and economic control. The political and social consequences may be serious, undermining reform and disrupting development. Such difficulties are more likely to arise when inflows—and outflows—are large, rapid and unexpected.

A crucial point here—one which I think has been somewhat overlooked—is that mismanaged capital flows can disrupt all investment in a country. Domestic investors have been—and must be—the main source of capital for development. Any policy for managing investment risk in emerging markets, therefore, should look at the whole investment picture in a country, not just the foreign corner of it.

For the supplier, the risks are perhaps less extensive, but are just as serious. No investor likes to take a loss, least of all if it jeopardizes his or her job or business. The drive to portfolio diversification—spreading risk—and higher yields is blunted. Again, in extreme cases, supplier country stock, debt and currency markets are disrupted, regulatory authorities disturbed, and politicians agitated.

Unfortunately, many of these symptoms were evident in the Mexican crisis. And beyond them, the crisis also demonstrated that severe cases seem to infect by contagion unconnected and dissimilar countries, raising a much more extensive financial threat.

As I have suggested, however, the problem is not really capital flows as such. It is their volatility. The impact of volatility is felt in two ways: through its frequency, which can harm long-term investment; and through its impact, for example on domestic banking systems.

Of course, if flows were more predictable—or even better, stable—there would be less risk. However, that is the nature of markets: unpredictability and volatility. To the extent that we can tackle volatility, we can also tackle unpredictability. I believe, therefore, that we must take much more stringent measures to reduce the risks stemming from volatility. It would be tragic if we allowed risks created by volatility in capital flows to disrupt and even reverse the reforms which have liberalized economies and opened markets. And we can reduce risk.

How? There is plenty that can be done. Governments have an arsenal of instruments at their disposal, ranging from no intervention to heavy intervention. All are tried and tested. But they are not a substitute for sound policy. The bedrock of a risk reduction strategy must be the recipient country's set of policies.

First, policy must be credible. This is especially important in the long term. Recent experience reveals a clear relationship between the strength of reforms and the ability to attract and retain investment. Some 80 percent of capital inflows between 1990 and 1994 went to just 20 countries; 60 percent went to only five countries.

Of course, not all of these countries were models of reform. Mexico was one of the biggest recipients. But what happened after Mexico devalued its peso precisely illustrates the paramount importance of disciplined exchange rates, macro-economic and structural policies consistent with the fundamentals. In particular, policy should prevent overvalued exchange rates, big current account deficits, consumption booms, rapid accelerations of inflation, and large increases in budget deficits and external debts.

M. Iannacci

Richard Frank

Second, policy can be more resilient. Bigger international reserves, less short-term government debt (a decisive factor in Mexico), and better capitalized banks—among other things—can help countries to weather storms.

And third, policy can be more flexible. For example, some sterilization may be possible in the early stages of capital inflow. But sterilization tends to become less effective after a while. A tighter fiscal stance may then be necessary, followed perhaps by exchange rate adjustments. The true value of flexibility, moreover, lies in handling subsequent outflows."

World Bank Roundup

Albania Albania's economy has continued to expand with international assistance and the country's emerging private sector, but the recovery has been tempered by the lack of adequate infrastructure. With help from a $15 million IDA credit approved May 25, the Eastern European nation will promote agricultural development and improve road access to rural areas. The goal is to improve roads using labor-intensive methods, provide equipment to maintain roads and conduct an inventory of roads which fall under different administrative areas. Contact Jan Pakulski at (202)-473-1797.

Bangladesh Bangladesh has some of the severest malnutrition problems in the world. A six-year project, financed with an IDA credit of $59.8 million approved on May 30, will develop a national program so that malnutrition will eventually cease to be a public health concern. NGOs will play a major role in the project. Contact Paul Mitchell at (202) 548-1423.

Benin A $27.8 million IDA credit, approved on May 30, will help Benin improve its health, particularly of the most vulnerable groups—women, children and the poor. It will help the government set up a nationwide family planning program. In addition, it will streamline the referral system, support the decentralization of sector management and administration, and expand the participation of major stakeholders, including the beneficiaries, at all levels. Contact Eric Chinje at (202)473-4467.

Burundi In the wake of tribal conflict and widespread unrest, Burundi has been struggling to rebuild its education and health sectors. An IDA credit of $21.3 million, approved May 25, will be used to improve health services. Specifically, the project is designed to strengthen the country's Ministry of Public Health, support health service delivery, rehabilitate hospitals, implement family planning policies and improve health information and education. Contact Eric Chinje at (202) 473-4467.

Guatemala Attempts by Guatemala to reduce poverty by increasing social spending on the poor have been frustrated by institutional weaknesses, such as a weak tax administration and antiquated financial management and auditing practices. A World Bank loan of $9.4 million was approved on May 30 to strengthen the government's financial management capability, and to help restore confidence in the integrity and competence of the public sector. Contact Ciro Gamarra at (202) 473-8721.

India Assam is one of India's poorest states, particularly in rural areas; 60 percent of rural people live below the poverty line. To help boost the livelihoods of Assam's poorest, a $126 million IDA credit, approved May 25, will expand income-generating opportunities for farmers and women. The project will increase farm extension services, rural infrastructure and land management. Contact Paul Mitchell at (202) 548-1423.

Tanzania The World Banks Group's International Finance Corporation will invest $24.4 million in a recently privatized Tanzanian brewery. The $18.4 million loan and $6 million equity investment will help the company increase output and meet international health, safety and environmental standards. Contact Amy Conran at (202) 473-6817.

Development Agenda

Date	Event	Sponsor	Location	Telephone
JUNE				
12	Development Forum on Poverty Reduction	Canadian International Development Agency	Toronto	(202)473-4637*
13-14	Ghana Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
15-16	Côte d'Ivoire Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
20	Chile and NAFTA: Costs and Benefits	Government of Chile; Ministry of Finance	Santiago	(202)473-0864*
20-21	Nicaragua Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
22	Guatemala Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
23	El Salvador Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
24	International Informatics Access '95—Global Information Strategy	Singapore Institute of Management	Singapore	(202)473-7230*
28-30	India Development Forum	World Bank	Paris	(33-1)4069-3016
JULY				
5-6	Senegal Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
10	Lessons of East Asian Economic Growth	Reserve Bank of Australia	Sydney	(202)473-8965*
10-11	Consultative Group Meeting on West Bank and Gaza	World Bank	Paris	(33-1)4069-3016
18-19	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

MEETINGS

Help Pledged for Central Asian Nations

International donors and agencies have offered three former Soviet republics—Kazakhstan, Azerbaijan and the Kyrgyz Republic—further financial assistance to keep their wide-ranging reforms on track. But donors at Consultative Group (CG) meetings in Paris also expressed concern about political conditions in the republics and emphasized the importance of continued commitment to adjustment.

The CG for Kazakhstan, meeting on May 26, indicated commitments totaling $1.22 billion for 1995, and some donors indicated a further $575 million for next year. There was general appreciation of the government's progress towards stabilizing the economy and introducing structural reforms.

Price, privatization and financial sector reforms had gone well in the second half of 1994. There had also been significant progress in economic stabilization this year. But a more rapid and effective restructuring of enterprises was crucial, and the government needed to put more emphasis on containing the budget deficit, accelerating the supply response, and integrating poverty reduction into reform.

Several donors drew attention to the link between economic and political reforms, and the CG welcomed the government's confirmation that parliamentary elections are planned to take place before the end of 1995.

On May 29, the first CG for Azerbaijan indicated pledges of $430 million for 1995. There were additional preliminary pledges of $240 million for 1996. Donors said that inflation had fallen sharply, the exchange rate had stabilized, and the structural reform program had made good progress. Price and trade liberalization were creating a climate favorable to private enterprise.

But a number of donors drew attention to the Nagorno-Karabach dispute and said they hoped it could finally be resolved. The government said that the improvement in the military and political picture allowed it to devote more time to the economy. Donors hoped that a proposed new oil pipeline would reduce Azerbaijan's dependence on foreign assistance.

Meeting the following day, the CG for the Kyrgyz Republic pledged $680 million for 1995-96. Donors commended the country for being at the forefront of stabilization and economic reform. Inflation was down to single digits and the currency was stable and convertible. Privatization was progressing well, enterprise restructuring was underway, financial discipline had been imposed on enterprises and banks, and land distribution and agricultural reform had been stepped up.

At the same time, however, donors stressed the close connection between economic stability and democratic principles. There was continuing concern about the budget and a monitoring period was agreed with the government. The republic's energy sector should become self-financing. The government now had to consolidate financial stabilization and push ahead with more reforms which would restore growth. □

Bank Backs Kazakhstan's Social Programs

An important part of Kazakhstan's economic reform program is a plan to separate key social services from the state-owned enterprises that provided them under the Soviet system. As business are privatized and overstaffed companies reduce in size, municipal governments will have to take over responsibility for employment, education, health and other social services. A $41 million social protection loan, approved by World Bank May 30, will help Kazakhstan strengthen social services at the national and regional levels, particularly agency capacity to provide unemployment benefits and help and retraining for job seekers.

Advance Briefing on Labor Report

The Bank will hold pre-publication press briefing on the *World Development Report 1995*, which will focus on labor. The report, which is embargoed until 2000 hours GMT, June 29, will be presented by Chief Economist Michael Bruno and WDR chief author, Michael Walton.

The briefing will be Wednesday, June 14, 1995 at 9:30 a.m. in room J-1050 of the Bank's "J" building, 701 18th St. N.W. (the corner of 18th Street and Pennsylvania Avenue).

Contact Merrell Tuck at (202)473-5916.

WORLD BANK NEWS

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